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SA

C. DUKES SCOTT
EXECUTIVE DIRECTOR

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DAN E ARNETT
CHIEF OF STAFF

March 28, 2006

VIA E-FILEING AND HAND DELIVERY

Mr. Charles L.A. Terreni
Chief Clerk/Administrator
South Carolina Public Service Commission
101 Executive Center Dr., Suite 100
Columbia, SC 29210

Re: Annual Review of Base Rates for Fuel Costs of South Carolina Electric and Gas Company
Docket No. 2006-2-E

Dear Mr. Terreni:

Enclosed for filing please find the original and one copy of the Settlement Agreement reached by all of the parties in the above referenced matter. The Settlement Agreement was also filed pursuant to the Commission's e-filing procedures. Please date stamp the extra copy enclosed and return it to me in the envelope provided.

Please note that the attached documents are exact duplicates, with the exception of the form of the signatures, of the e-filed copy submitted to the Commission in accordance with its electronic filing instructions. We will forward the original signatures upon receipt to replace the faxed signatures.

By copy of this letter we are also serving all other parties of record. Thank you very much for your assistance, and please let me know if you have any questions.

Sincerely,

Shannon Bowyer Hudson

Enclosure
SBH/pjm

cc: Patricia Banks Morrison, Esquire (w/enc)
Mitchell M. Willoughby, Esquire (w/enc)
Belton T. Zeigler, Esquire (w/enc)
Scott Elliott, Esquire (w/enc)
E. Wade Mullins, III, Esquire (w/enc)
Damon E. Xenopoulos, Esquire (w/enc)

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The Form Of The Signature, Of The E-Filed Copy Submitted
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Instructions**

BEFORE
THE PUBLIC SERVICE COMMISSION OF

SOUTH CAROLINA

DOCKET NO. 2006-2-E

March 28, 2006

IN RE:

South Carolina Electric & Gas Company -
Annual Review of Base Rates for
Fuel Costs

SETTLEMENT AGREEMENT

This Settlement Agreement is made by and among the South Carolina Office of Regulatory Staff ("ORS"), South Carolina Energy Users Committee ("SCEUC"), CMC Steel South Carolina formerly known as SMI Steel-South Carolina ("CMC Steel") and South Carolina Electric & Gas Company ("SCE&G") (collectively referred to as the "Parties" or sometimes individually as a "Party").

WHEREAS, the above-captioned proceeding has been established by the Public Service Commission of South Carolina ("Commission") pursuant to the procedure established in S.C. Code Ann. §58-27-865 (Supp. 2004), and the Parties to this Settlement Agreement are parties of record in the above-captioned docket. There are no other parties of record in the above-captioned proceeding;

WHEREAS, the Parties have varying legal positions regarding the issues in this case;

WHEREAS, the Parties have engaged in discussions to determine if a settlement of the issues would be in their best interest;

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WHEREAS, following these discussions the Parties have each determined that their interest and the public interest would be best served by settling all issues pending in the above-captioned case under the terms and conditions set forth below:

1. The Parties agree to stipulate into the record before the Commission the testimony of the following witnesses without objection, change, amendment or cross-examination:

A. SCE&G witnesses:

- (1) Jeffrey B. Archie
- (2) Gerhard Haimberger (direct and rebuttal)
- (3) John R. Hendrix
- (4) Rose Jackson (direct and rebuttal)
- (5) Joseph M. Lynch
- (6) Gene G. Soult
- (7) Jimmy E. Addison (rebuttal only)

B. ORS witnesses:

- (1) A. Randy Watts (direct and surrebuttal)
- (2) Jacqueline R. Cherry

C. SCEUC witness:

- (1) Kevin W. O'Donnell

D. CMC Steel witness:

- (1) Dennis W. Goins

The Parties further agree that no other evidence will be offered in this proceeding other than the above testimony and this Settlement Agreement.

2. As a compromise to positions advanced by ORS, SCEUC, CMC Steel, and SCE&G, all Parties agree to the proposal set out immediately below, and this proposal is hereby adopted, accepted, and acknowledged as the agreement of the Parties. The Parties agree that:

- A. SCE&G's under recovered fuel costs for the period February 1, 2005 through April 30, 2006 are in the amount of \$38,488,437. This under recovery consists of 1) historical under recovered costs for the period February 1, 2005 through January 31, 2006 and 2) estimated under recovered costs for the period February 1, 2006 through April 30, 2006.
- B. The Parties agree that any and all challenges to SCE&G's historical fuel costs for the period ending January 31, 2006 are not subject to further review; however, fuel costs for periods beginning on February 1, 2006 and thereafter shall be open issues in future proceedings and will continue to be trued-up against actual costs as determined in such proceedings held under S.C. Code Ann. § 58-27-865 (Supp. 2004).
- C. Notwithstanding the provision of Subsection (D) below, SCE&G agrees to recover an amount no greater than the under recovery at April 30, 2006 over a two year period commencing May 1, 2006. The Parties also agree that SCE&G shall be allowed to charge and recover carrying costs on \$19,244,218.50 in the manner set forth below. The applicable interest rate used to calculate the carrying costs under this Settlement Agreement is the rate of interest as of the first day of each month during the two year period for 10-year U.S. Government Treasury Bills, as reported in the *Wall Street Journal*, plus an all-in spread of 65 basis points (0.65 percentage points). The total carrying cost rate to include the 65 basis points shall not exceed 6%. The two year collection of the under recovery and its applicable carrying costs shall operate as follows:
 - (1) For the period May 1, 2006 through April 30, 2007, SCE&G shall recover \$19,244,218.50 and interest, which shall be calculated and recovered monthly from fuel clause revenues on the remaining estimated under recovery of \$19,244,218.50 commencing May 1, 2006 and ceasing on April 30, 2007.

- (2) For the period May 1, 2007 through April 30, 2008, SCE&G shall charge and recover carrying costs as set forth above on \$19,244,218.50 or the under recovery as of April 30, 2007, whichever is less. This amount is to be recovered by SCE&G in equal monthly installments at 1/12 per month with interest calculated on the remaining balance, consistent with the calculation and recovery mechanism set forth in Section 2 C (1) above. Attachment A provides examples of the recovery procedure with Example A showing the procedure if the under recovery is equal to or greater than \$19,244,218.50 and Example B showing the procedure if the under recovery is less than \$19,244,218.50 during the May 1, 2007 through April 30, 2008 period. A sample carrying cost rate is used in Attachment A for illustrative purposes only and the Parties understand that the carrying cost rate may change on a month to month basis as rates for the 10-year U.S. Government Treasury Bills fluctuate, either increasing or decreasing.
- D. The Parties agree and recommend that the first dollars recovered in the succeeding twelve months beginning May 1, 2006 shall be applied to the under recovery so that in the next fuel proceeding for SCE&G any under recovery will be for the period May 1, 2006 through April 30, 2007.
- E. The Parties agree this Settlement Agreement is reasonable, in the public interest and in accordance with law and regulatory policy. Specifically, the agreement states that an amount no greater than the under recovery in question will be spread over a two-year period as set forth in Paragraph 2(C). It is the agreement of all Parties, for the purposes of this Settlement Agreement only, that this methodology sets an appropriate factor as set forth in Paragraph 3 below. This Settlement Agreement in no way constitutes a waiver or acceptance of the position of any Party concerning the requirements of S.C. Code Ann. §58-27-865 in any future proceeding.
- F. Further, ORS is charged with the duty to represent the public interest of South Carolina pursuant to S.C. Code §58-4-10(B) (added by Act 175), and ORS believes such a two year levelizing period would serve the public interest. S.C. Code §58-4-10(B)(1) through (3) reads in part as follows:

“...‘public interest’ means a balancing of the following:

- (1) Concerns of the using and consuming public with respect to public utility services, regardless of the class of customer;
- (2) Economic development and job attraction and retention in South Carolina; and
- (3) Preservation of the financial integrity of the State's public utilities and continued investment in and maintenance of utility facilities so as to provide reliable and high quality utility services."

This two year levelization period would balance concerns of the using and consuming public while preserving the financial integrity of SCE&G. ORS also believes a two year levelization period would not inhibit economic development.

G. The Parties agree to accept all accounting adjustments as put forth in ORS witness Cherry's testimony.

H. SCE&G agrees to provide to ORS, SCEUC, and CMC Steel the following:

(1) Copies of the monthly fuel recovery reports currently filed with the Commission and ORS; and,

(2) Quarterly forecasts beginning with the quarter ending June 30, 2006 of the expected fuel factor to be set at SCE&G's next annual fuel proceeding and SCE&G's historical over/under recovery to date. SCE&G agrees it will put forth its best efforts to forecast the expected fuel factor to be set at its next annual proceeding, however, all Parties agree that these quarterly forecasts will not be admitted into evidence in any future SCE&G proceedings.

I. SCE&G agrees to perform an analysis of the feasibility, costs and potential benefits of hedging natural gas supplies for electric generation and will provide a copy of the written results of that analysis to the Parties. The volumes of natural gas that are the subject of this analysis will be forecast for a 12-month period using SCE&G's standard generation forecasting models and fuel cost forecasting models, supplemented by all relevant data, and the analysis shall explicitly address, among other things, the effect of contingencies related to electric system demand, weather, plant operating characteristics, forced outages, scheduled plant outages, and the market price of power. The underlying data used in this analysis will be

provided to or made available for inspection by ORS under existing confidentiality agreements and practices. The underlying data used in this analysis will be provided to or made available for inspection by other Parties only to the extent that SCE&G determines the data not to be business confidential. By executing this Settlement Agreement, no Party shall waive or otherwise prejudice its right to seek an order from the Commission if such Party disagrees with any assertion by SCE&G that certain data or information is business confidential or otherwise protected from disclosure even if the Party has executed a confidentiality agreement.

3. For purposes of this Settlement Agreement, all Parties agree that the appropriate fuel factor for SCE&G to charge for the period beginning with the first billing cycle in May 2006 extending through the last billing cycle of April 2007 is 2.516 cents per kwh. This fuel factor does not include interest as set forth pursuant to this Settlement Agreement.

4. The Parties agree to cooperate in good faith with one another in recommending to the Commission that this Settlement Agreement be accepted and approved by the Commission as a fair, reasonable and full resolution of all issues and motions currently pending in the above-captioned proceeding. The Parties agree to use reasonable efforts to defend and support any Commission order issued approving this Settlement Agreement and the terms and conditions contained herein.

5. This written Settlement Agreement contains the complete agreement of the Parties. There are no other terms and conditions to which the Parties have agreed. This Settlement Agreement integrates all discussions had among the Parties into the terms of this written document. The Parties agree that by signing this Settlement Agreement, it will not constrain, inhibit or impair their arguments or positions held in future proceedings, nor will the Settlement Agreement, the approach it contains for computing the fuel factor, or any of the matters agreed to in it be used as evidence or precedent in any future proceeding. If the

Commission should decline to approve the Settlement Agreement in its entirety, then any Party desiring to do so may withdraw from the Settlement Agreement without penalty.

6. This Settlement Agreement shall be interpreted according to South Carolina law. The above terms and conditions fully represent the agreement of the Parties hereto. Therefore, each Party acknowledges its consent and agreement to this Settlement Agreement by authorizing its counsel to affix his or her signature to this document where indicated below. Counsel's signature represents his or her representation that his or her client has authorized the execution of the agreement. Facsimile signatures and e-mail signatures shall be as effective as original signatures to bind any party. This document may be signed in counterparts, with the various signature pages combined with the body of the document constituting an original and provable copy of this Settlement Agreement.

WE AGREE:

Representing and binding the Office of Regulatory Staff

Shannon Bowyer Hudson
Shannon Bowyer Hudson, Esquire

Office of Regulatory Staff

1441 Main Street, Suite 300

Columbia, SC 29201

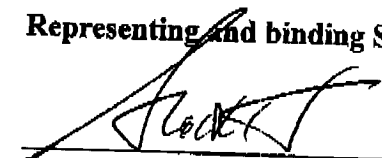
Phone: (803) 737-0889

Fax: (803) 737-0895

Email: shudson@regstaff.sc.gov

WE AGREE:

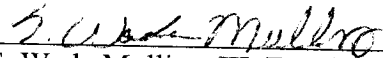
Representing and binding South Carolina Energy Users Committee



Scott Elliott, Esquire
Elliott & Elliott, P.A.
721 Olive Street
Columbia, SC 29205
Phone: (803) 771-0555
Fax: (803) 771-8010
Email: selliott@elliottlaw.us

WE AGREE:

Representing and binding CMC Steel



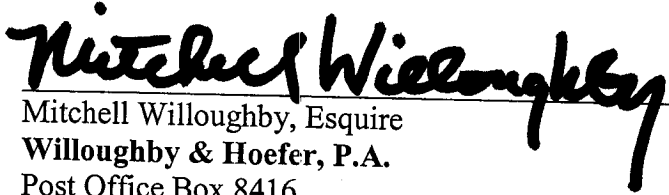
E. Wade Mullins, III, Esquire
Bruner Powell Robbins Wall & Mullins, LLC
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WE AGREE:

Representing and binding South Carolina Electric & Gas Company



Mitchell Willoughby, Esquire

Willoughby & Hoefer, P.A.

Post Office Box 8416

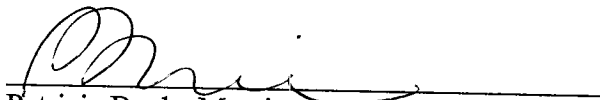
1022 Calhoun Street, Suite 302

Columbia, SC 29202-8416

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Patricia Banks Morrison, Esquire, Esquire
South Carolina Electric & Gas Corporation

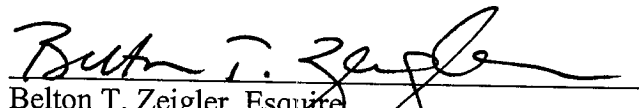
1426 Main Street, 13th floor

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Attachment A

Example A

May 1, 2006 through April 30, 2007

	May	June	July	August	September	October	November	December	January	February	March	April	Total Recovered
Sample Carrying Cost	\$19,244,218.50	\$19,244,218.50	\$19,244,218.50	\$19,244,218.50	\$19,244,218.50	\$19,244,218.50	\$19,244,218.50	\$19,244,218.50	\$19,244,218.50	\$19,244,218.50	\$19,244,218.50	\$19,244,218.50	\$1,033,414.53
* Monthly Carrying Cost Collected	0.4475%	0.4475%	0.4475%	0.4475%	0.4475%	0.4475%	0.4475%	0.4475%	0.4475%	0.4475%	0.4475%	0.4475%	
	\$96,117.88	\$96,117.88	\$96,117.88	\$96,117.88	\$96,117.88	\$96,117.88	\$96,117.88	\$96,117.88	\$96,117.88	\$96,117.88	\$96,117.88	\$96,117.88	\$1,033,414.53

* Note: The actual under collection will reflect the addition of interest calculated and recovered each month from fuel clause revenues.

May 1, 2007 through April 30, 2008 if the under recovery as of April 30, 2007 is \$19,244,218.50 or greater

	May	June	July	August	September	October	November	December	January	February	March	April	Total Recovered
Balance Remaining for Recovery	\$19,244,218.50	\$17,640,533.63	\$16,036,848.75	\$14,433,163.88	\$12,829,479.00	\$11,225,794.13	\$9,622,109.25	\$8,018,424.38	\$6,414,739.50	\$4,811,054.63	\$3,207,369.75	\$1,603,684.88	\$19,244,218.50
Monthly Recovery Amount	\$1,603,684.88	\$1,603,684.88	\$1,603,684.88	\$1,603,684.88	\$1,603,684.88	\$1,603,684.88	\$1,603,684.88	\$1,603,684.88	\$1,603,684.88	\$1,603,684.88	\$1,603,684.88	\$1,603,684.88	\$19,244,218.50
* Monthly Carrying Cost Recovered	\$96,117.88	\$78,941.39	\$71,764.90	\$64,588.41	\$57,411.92	\$50,235.43	\$43,058.94	\$35,882.45	\$28,705.96	\$21,529.47	\$14,352.98	\$7,176.49	\$559,766.21
Total Monthly Recovery	\$1,699,802.75	\$1,682,626.26	\$1,675,449.77	\$1,668,273.28	\$1,661,096.79	\$1,653,920.30	\$1,646,743.81	\$1,639,567.32	\$1,632,390.83	\$1,625,214.34	\$1,618,037.85	\$1,610,861.36	\$19,803,984.71

* Note: The sample carrying cost is based on the 10 year Treasury Bill rate as of March 22, 2006 of 4.72% plus 65 basis points divided by 12 to arrive at a monthly rate of .4475%.

Example B

May 1, 2006 through April 30, 2007

	May	June	July	August	September	October	November	December	January	February	March	April	Total Recovered
Sample Carrying Cost	\$19,244,218.50	\$19,244,218.50	\$19,244,218.50	\$19,244,218.50	\$19,244,218.50	\$19,244,218.50	\$19,244,218.50	\$19,244,218.50	\$19,244,218.50	\$19,244,218.50	\$19,244,218.50	\$19,244,218.50	\$1,033,414.53
* Monthly Carrying Cost Collected	0.4475%	0.4475%	0.4475%	0.4475%	0.4475%	0.4475%	0.4475%	0.4475%	0.4475%	0.4475%	0.4475%	0.4475%	
	\$96,117.88	\$96,117.88	\$96,117.88	\$96,117.88	\$96,117.88	\$96,117.88	\$96,117.88	\$96,117.88	\$96,117.88	\$96,117.88	\$96,117.88	\$96,117.88	\$1,033,414.53

* Note: The actual under collection will reflect the addition of interest calculated and recovered each month from fuel clause revenues.

May 1, 2007 through April 30, 2008 if the under recovery as of April 30, 2007 is \$19,244,218.50 or less
(For illustration purposes this example presumes the underrecovery as of April 30, 2007 is \$10,000,000)

	May	June	July	August	September	October	November	December	January	February	March	April	Total Recovered
Balance Remaining for Recovery	\$10,000,000.00	\$9,166,666.67	\$8,333,333.33	\$7,500,000.00	\$6,666,666.67	\$5,833,333.33	\$5,000,000.00	\$4,166,666.67	\$3,333,333.33	\$2,500,000.00	\$1,666,666.67	\$833,333.33	\$10,000,000.00
Monthly Recovery Amount	\$833,333.33	\$833,333.33	\$833,333.33	\$833,333.33	\$833,333.33	\$833,333.33	\$833,333.33	\$833,333.33	\$833,333.33	\$833,333.33	\$833,333.33	\$833,333.33	\$10,000,000.00
* Monthly Carrying Cost Recovered	\$44,750.00	\$41,020.83	\$37,291.67	\$33,562.50	\$29,833.33	\$26,104.17	\$22,375.00	\$18,645.83	\$14,916.67	\$11,187.50	\$7,458.33	\$3,729.17	\$290,875.00
Total Monthly Recovery	\$878,083.33	\$874,354.17	\$870,625.00	\$866,895.83	\$863,166.67	\$859,437.50	\$855,708.33	\$851,979.17	\$848,250.00	\$844,520.83	\$840,791.67	\$837,062.50	\$10,290,875.00

* Note: The sample carrying cost is based on the 10 year Treasury Bill rate as of March 22, 2006 of 4.72% plus 65 basis points divided by 12 to arrive at a monthly rate of .4475%.

BEFORE
THE PUBLIC SERVICE COMMISSION OF
SOUTH CAROLINA
DOCKET NO. 2006-2-E

IN RE:

South Carolina Electric & Gas Company)	
Annual Review of Base Rates for)	CERTIFICATE OF SERVICE
Fuel Costs)	

This is to certify that I, Pamela J. McMullan, an employee with the Office of Regulatory Staff, have this date served one (1) copy of the **SETTLEMENT AGREEMENT** in the above-referenced matter to the person(s) named below by causing said copy to be deposited in the United States Postal Service, first class postage prepaid and affixed thereto, and addressed as shown below:

Patricia Banks Morrison, Esquire
South Carolina Electric and Gas Company
Legal Department - 130
Columbia, SC, 29218

Mitchell M. Willoughby, Esquire
Willoughby & Hoefer, P.A.
Post Office Box 8416
Columbia, SC, 29202

Belton T. Zeigler, Esquire
Haynsworth Sinkler & Boyd, PA
Post Office Box 11889
Columbia , SC, 29211

Scott Elliott , Esquire
Elliott & Elliott, P.A.
721 Olive Street
Columbia, SC , 29205

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E. Wade Mullins, III, Esquire
Bruner Powell Robbins Wall & Mullins, LLC
Post Office Box 61110
Columbia, SC 29260

Damon E. Xenopoulos, Esquire
Brickfield, Burchette, Ritts & Stone, P.C.
1025 Thomas Jefferson Street, N.W.
Washington, DC 20007

A handwritten signature in black ink, appearing to read 'PJM', is written over a horizontal line.

Pamela J. McMullan

March 28, 2006
Columbia, South Carolina